



## Majority of Irish exports still exempt from US tariffs

*President Trump seemed to do his best to sow uncertainty this week, see-sawing on whether to impose a new 10% or 15% global tariff. By asserting the new global 10% tariff would be 'additional' he was interpreted by some commentators as implying it would be on top of the existing 15% tariff ceiling on EU exports.*

*In the event, the 10% global tariff, set for the next 150 days under Section 122 legislation, adds to previous Most-Favoured-Nation (MFN) rates (zero in many cases). So many Irish firms will face a 10% tariff, down from 15%, albeit with clear exceptions in the agri-food sector. Global Trade Watch estimate the changes mean Ireland's effective US tariff rate is now 4.2%, down from 4.9% prior to the Supreme Court decision. Crucially, pharmaceuticals are still exempt, so Ireland's effective tariff rate is still amongst the lowest in the OECD, with only 16% of Irish goods exports to the US exposed to tariffs.*

*For some product categories the new tariff will exceed the 15% ceiling agreed under the EU-US trade deal - which may need to be re-negotiated. However, Section 122 does not allow the President to discriminate between countries to conclude trade deals. US Trade Representative Jamieson Greer has said the administration will utilize Section 232 (sectoral) or Section 301 (country-specific) investigations to put tariff policy on a more durable legal footing. However, it may struggle to do so ahead of the 150-day deadline. So a Congressional vote may be required in July to extend the 10% tariff, potentially an unpopular move ahead of mid-term elections on November 3rd.*

**President Trump confuses on US trade policy once again:** The US Supreme Court's February 20th decision struck down the legal basis for President Trump's 'reciprocal' tariffs on a range of countries, including the 15% ceiling imposed on EU exports to the United States. However, not for the first time, President Trump sowed confusion by asserting he would impose an 'additional' 15% tariff. In the event the new 10% global tariff (vs 15% mooted over the weekend) imposed for the next 150 days under Section 122 legislation, is on top of previous 'Most-Favoured-Nation' (MFN) tariffs that precede the Trump Presidency, zero in many cases. It is not an additional 10%, above the existing 15% tariff ceiling for EU exports.

**Ireland still faces a low effective tariff rate:** Most the product exemptions allowed under the previous International Emergency Economic Powers Act (IEEPA) have been transposed into the new 10% global tariff. Crucially, for Ireland this means pharmaceuticals remain exempt. Hence, Global Trade Alert estimate Ireland's effective US tariff rate is now 4.2%, down from 4.9% prior to the Supreme Court's decision, and still amongst the lowest in the OECD. This is because many exports will now face the 10% headline tariff, down from the 15% ceiling, and that 84% of Irish goods exports to the United States are still exempt (see chart). However, the sharpest declines in US effective tariff rates have been recorded by China (37% to 27%), Brazil (26% to 11%) and India (22% to 14%).

**EU still looking for clarity on US trade deal:** In the wake of the Supreme Court's decision the Trump administration insisted that trading partners abide by existing trade deals. However, for some product categories the previous MFN tariff + 10% will exceed the 15% agreed under the EU-US trade deal. Furthermore, some exemptions for circa 371 product categories under the EU-US trade deal, and worth \$4.6bn, have not been carried over. Hence, the EU Commission has paused ratification of the deal and sought clarity from the Trump administration. President Trump's assertion he will eventually raise the global 10% tariff to 15% would also breach the 10% agreed with the UK. Crucially, Section 122 does not allow the US President to distinguish between countries in setting tariffs.

**The thorny issue of refunds:** An estimated \$140-175bn of tariff revenues may now have to be refunded. This is not an insignificant sum, circa 0.5% of US GDP, on top of an unsustainable fiscal deficit. The Financial Times reports 900 companies have already initiated legal steps to claim back revenues. Remarkably, the legal basis of Section 122 is already being questioned, opening up the possibility of further legal challenge. Section 122 of the 1974 Trade Act allows the President to impose temporary tariffs when fundamental international payments problems occur. Arguably, no such problem has existed since the US adopted a flexible exchange rate system in 1973, having abandoned the gold standard in 1971.

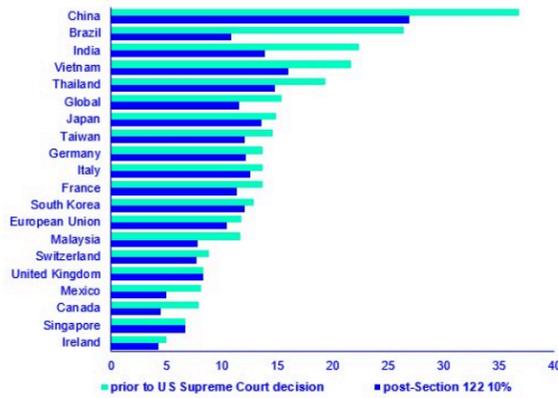
**Where will the Trump administration turn to next:** Section 122 does not allow the US President to discriminate between countries - stopping President Trump from completing trade 'deals' with individual trading partners. US Trade Representative Jamieson Greer has said the administration will now turn to Section 232 (sectoral) and Section 301 (country specific) investigations to put tariff policy on a more durable legal footing. For example, President Trump's steel tariffs implemented in 2018 remain in place. These investigations must reflect national security concerns (232) or provide evidence of unfair trade practices (301).

An existing Section 232 investigation into the pharmaceutical sector has not concluded, seemingly superseded by several deals between the White House and large firms in the sector (Pfizer, Eli Lilly and Novo Nordisk). However, the US administration may struggle to implement fresh Section 232, or 301, investigations before the 150 day-deadline of July 24th. If so, a Congressional vote will be required in July to extend the 10% global tariff, possibly an unpopular move ahead of mid-term elections on November 3rd.

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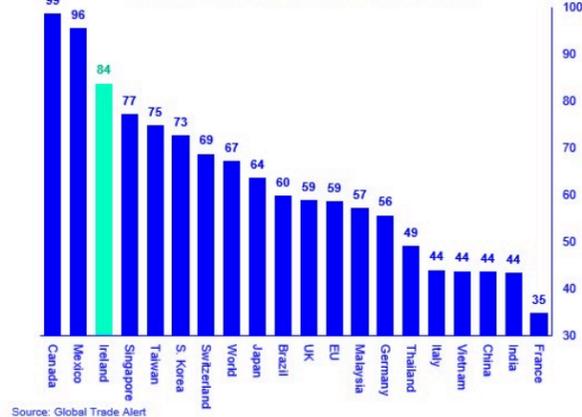
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**Effective US tariff rates by country**



Source: Global Trade Alert

**Proportion of goods trade exempt from 10% Section 122 tariff**



Source: Global Trade Alert

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